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# Social Transformation, the State and the Middle Classes in Post-Independence Malaysia(<Special Issue>Mediating Identities in a Changing Malaysia)

AUTHOR(S):

Abdul Rahman, Embong

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CITATION:

Abdul Rahman, Embong. Social Transformation, the State and the Middle Classes in Post-Independence Malaysia(<Special Issue>Mediating Identities in a Changing Malaysia). 東南アジア研究 1996, 34(3): 524-547

ISSUE DATE:

1996-12

URL:

<http://hdl.handle.net/2433/56605>

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## **Social Transformation, the State and the Middle Classes in Post-Independence Malaysia**

ABDUL RAHMAN Embong\*

### **Introduction**

Malaysia has embarked along the path of rapid industrialization in order to become a fully developed industrial society by the year 2020 [Mahathir 1991a]. Industrialization was the cornerstone in the New Economic Policy (1971-90) (NEP). Under the NEP's successor, the National Development Policy (1991-2000) (NDP), industrialization — especially heavy industrialization using high technology — is given additional importance. As was the case under the NEP, the NDP's emphasis is on large-scale production for export by Malaysian industries, but unlike the NEP, there has been a change since the mid-eighties in the state's role in promoting growth and restructuring society, which now is increasingly taken over by the private sector under the strategy of private sector-led growth [Malaysia 1991: 4; 1996: vi].

A number of scholars in their study on the transformation in Malaysia during the colonial as well as the post-Independence periods suggested that the current industrial development policy thrust in Malaysia actually follows the policy options which were already implemented under the British colonial regime [Overton 1994; Brookfield 1994]. Overton, for example, dismissed the thesis that the colonial economy was "a vulnerable, distorted and exploitative" one [Overton 1994: 35], or that colonial capitalism caused underdevelopment in former colonies, including Malaysia (then Malaya). He argued that post-Independence industrialization in Malaysia did not emerge "from the weight of colonial restriction and distortion," but instead it has built on "essential economic preconditions which were laid down during the colonial years" [*ibid.*: 36]. As such, according to him, the post-Independence industrialization — which has colonial origins in the sense that it moves away from state intervention towards export orientation and privatization — is "a return to a long-established path, not a radical change of direction" [*ibid.*: 48].

However, Overton's contention is suspect on at least two counts. First, as will be shown below (see ensuing section entitled "Rapid structural changes and social transformation"), colonial capitalism had a strong distorting effect upon the national economy, creating a serious imbalance between sectors as well as between ethnic groups. Second, his claim that the present industrialization drive is a "return to a long established path" set down by colonialism essentially misses the nature and extent of the current transformation in Malaysia.

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\* Department of Anthropology and Sociology, Universiti Kebangsaan Malaysia, 43600 Bangi, Selangor, Malaysia

This article argues that though elements of a modern economy and society were laid during the British colonial period, the in-depth transformation of Malaysian society is a post-Independence phenomenon, consciously planned by a developmentalist state, which attempted a radical change of direction from the one set by the British. Though the state's current emphasis on export-oriented industrialization (EOI) and privatization may appear as a "replay" of the well-trodden colonial policies, the "return-to-a-long-established-path" argument is rather a simplistic one, which tends to be dismissive of the ex-colony's potentialities in national development. Furthermore, it actually obscures one fundamental point, that is, that industrialization in former colonies, such as Malaysia, is late-industrialization. The strategy of late-industrialization is necessarily a complex one; while being market-friendly and allowing free enterprise, the state must play a leading role. In fact, at various stages, the state's role is very crucial in reigning in market forces in order to break down the colonial plural society legacy and a dual economy that rested fundamentally on primary commodities' production and export, as well as to transform the economy and society according to the image conceived by state's elite.

Having to negotiate between ethnic and class interests internally on one hand, and to steer a national economy within a globalised world economy — fraught with the intense power play by powerful nations to the detriment of smaller ones on the other — the Malaysian state's elite adopts a particular brand of economic nationalism, with pragmatism guiding its policy options. To sustain its political legitimacy, the state's development strategies aim not only to bring growth (which in a free market economy tends to generate concentration of wealth among a few as well as growing inequality), but growth with distribution. This is the rationale for state intervention, the social engineering programme and affirmative action under the NEP. The NEP — Malaysia's post-Independence most critical and controversial policy — though in part fuelled by foreign capital and multinational corporations (MNCs), has the strategic objectives of growth with equity among ethnic groups. The state's agenda is not just industrialization and modernization per se, as is often the case in monoethnic states. Having evolved from an indigenous monoethnic state into a multiethnic society due to the workings of British colonialism — a society in which the Malays and other indigenous people were more backward compared to the immigrant communities — the particularity of the Malaysian development experience is that it has been planned to address, in one way or another, the historical agenda of the nation, that is, the resolution of what is known as "the Malay dilemma" [Mahathir 1970] as well as to foster national unity from ethnic diversity, and forge a common nationhood.

However, the essence of the NEP is not only the philosophy of distribution — expressed in particular through its poverty eradication programmes — but also wealth creation and growth (expressed in its "restructuring of society" exercise in order to create Bumiputera entrepreneurial and professional classes). The implementation of this double-edged historical agenda resulted in social-structural transformation with industrialization and urbanization. This has significantly altered the preponderance of one particular ethnic group as entrepreneurs, professionals, and production workers, thus making these classes more multi-

ethnic today.

Given its choice for capitalist development, the UMNO-led middle-class state has to decide on certain key policy imperatives. In the absence of a strong indigenous national bourgeoisie to play a leading role in industrialization and national development, the state's elite views the creation of such a bourgeoisie — dubbed euphemistically as the *bumiputera* commercial and industrial community (BCIC) — a necessary prerequisite for Malaysia's economic stability as well as national and social cohesion. Hence, its emphasis on 30 per cent *bumiputera* share ownership and participation in the corporate sector, as well as various other quotas. The state-as-entrepreneur policy under the NEP was to be an interim measure to usher in the growth of an entrepreneurial class. The present privatization programme — seemingly a break from the NEP — is actually its extension within the logic of capital accumulation, wealth concentration and consolidation of this class. It is still part of the NEP's restructuring exercise to transfer some of the state's companies to Malay capitalists who are regarded as “having arrived” in order to expand and consolidate the BCIC. This is not a “return to a long-established path,” but a prelude to greater expansion of Malay capitalism and the growth of the capitalist segment of Mahathir's “Melayu Baru” [Mahathir 1991b; Khoo Boo Teik 1995: chapter 8].

It is in the light of the above understanding that this article is conceived. The article is divided into three parts. The first part deals with the rapid structural changes and social transformation in Malaysia since Independence, more so since the 1970s. This is followed by a discussion on the growth and expansion of the middle classes in the second part, while the third part deals with the role of the developmentalist state in the social transformation and growth of the middle classes. By way of conclusion, the article attempts to draw some of the main arguments together, and suggests that while due recognition must be given to the significant role of the state in the social transformation and the creation of the modern classes, especially the middle classes, its role should not be overstated. The force of market expansion, too, has a tremendous impact upon this transformation and the growth of these classes, thus making capitalist relations of production argument a pertinent one. At the same time, the entrepreneurial and middle classes develop their own cultural attributes and lifestyles — with tendencies towards distinction, though not yet altogether fully distinct. These arguments — the role of the state, capitalist production relations, and cultural attributes and lifestyles — need to be given due recognition, and, if possible, integrated together in any analysis of social transformation and the middle classes in Malaysia [Abdul Rahman 1995a].<sup>1)</sup>

### **Rapid Structural Changes and Social Transformation**

In his recently edited volume on transformation with industrialization in Malaysia, Harold Brookfield contended that though economic transformation in Malaysia “took off” around 1970, it

1) Due to space constraints, this article only discusses the role of the state and capitalist production relations in the growth and expansion of the middle classes in Malaysia. A detailed discussion on cultural capital and the middle classes should be the topic of a separate article.

was preceded by at least a half-century of quite significant change away from the classic colonial pattern [Brookfield 1994: 6]. He drew attention to the fact that the share of the work-force in primary production had already declined by 14 per cent between 1921 and Independence in 1957, while the shares in secondary occupations of manufacturing and construction, and in the transport, communications and commerce group, grew slowly but fairly steadily, the former doubling its 1921 level by 1967 [*ibid.*: 4-6].

Though the above trend is discernible, this argument should be read with some caution. It should not be interpreted to mean that colonial capitalism in Malaya had any interest in promoting local manufacturing or social transformation with industrialization. As argued by Jesudason, during the colonial period, manufacturing was never considered a serious option for the country. The colonial state subscribed to an international division of labour in which the colonies would produce commodities and the metropole, the manufactured goods. This policy had the effect of constraining local manufacturing [Jesudason 1990: 32]. During the colonial period, too, incentives for industrial growth were few, and suggestions for and attempts at protection policies to encourage local industrialization were at best ignored, or at worst, resisted by the colonial state [Jomo 1988: 219].

As such, any discussion of in-depth changes and transformation in Malaysia has to be focussed on the post-colonial period, especially the one after the 1970s. Though the Pioneer Industries Ordinance, which tried to bring about import-substitution industrialization, was introduced in 1958, one year after independence, its impact was limited. This was so because of its capital-intensive nature and the limited domestic market. Only after the introduction of the Investment Incentives Act of 1968, the Free Trade Zone Act in 1971 and the Industrial Coordination Act in 1975 — all of which spurred export-oriented industrialization — did the transformation processes really begin to have an impact upon the economy and social structure as a whole. This change in the direction of Malaysian industrial policy coincided with the implementation of the NEP since 1971 beginning with the Second Malaysia Plan (1971-75) [Ishak 1995: 13]. During the Fourth Malaysia Plan (1981-85), Malaysia engineered another major shift in her industrial policy, from labour-intensive to capital- and technology-intensive industrialization, and entered the new phase of heavy industrialization. The Industrial Master Plan (IMP), which outlined the industrial strategy for the period 1986-95, consolidated further the new industrial policy thrust of export-oriented industrialization of the early 1980s. In sum, it was the NEP's twin objectives of "restructuring" and poverty eradication, and the industrial policy of export-led industrialization that had transformed Malaysia into what it is today [Anuwar Ali 1995: 14-28].

What are some of the salient features of this transformation? To have an idea of the nature and extent of this transformation, we highlight below a few of its key dimensions.

First, the twenty-year period (1971-90) under the NEP, though characterised by fluctuations in the rates of growth in the Gross Domestic Product (GDP), saw the GDP growing at an average rate of 6.7 per cent per annum. Its growth was more rapid in the 1970s, recording an annual average rate of 7.5 per cent, but due to the 1985-86 recession — the

worst since independence, which for the first time saw negative growth — it slowed down to 5.9 per cent in the 1980s. What should be highlighted is the fact that during the 20 years of rapid industrialization under the NEP, the GDP had trebled. Based on 1978 prices, real GDP in 1990 was RM79,103 million, a three-fold increase from RM21,548 million in 1970 [Malaysia 1991: 36-37]. In the 1990s, during the first five years of the NDP, the economy grew even more rapidly. The Sixth Malaysia Plan 1991-95 period saw the economy growing at an average annual rate of 8.7 per cent, thus increasing the GDP further to RM120,316 million [Malaysia 1996: 56], almost a sixfold increase within two-and-a-half decades (1971-95), or one-and-a-half times the 1990 figure. This rapid growth has subsequently more than doubled the income per capita in real terms from RM1,937 in 1970 to RM4,268 in 1990 (in 1978 prices) [Malaysia 1991: 37]. In current prices, the per capita income was RM6,180 in 1990 and RM9,786 in 1995 [Malaysia 1996: 36].

Second, the structural transformation of the economy has been very rapid and extensive. Malaysia's economy has been transformed from being a basically agricultural economy and a primary producer to an increasingly industrialised one with a large and expanding manufacturing base and service sector. Such structural transformation can be seen more clearly if we compare the relative positions of the primary, secondary and tertiary sectors over the last 25 years.

**Table 1** Malaysia: Percentage Contribution of the Primary, Secondary and Tertiary Sectors to GDP, 1970-2000

|             | 1970 | 1980 | 1990 | 1995 | 2000 |
|-------------|------|------|------|------|------|
| Primary*    | 44.3 | 33.9 | 28.1 | 20.5 | 15.5 |
| Secondary** | 18.3 | 24.9 | 30.0 | 36.5 | 40.6 |
| Tertiary    | 37.4 | 41.2 | 41.9 | 43.0 | 43.9 |

Source: [Malaysia 1991: 72; Malaysia 1996: 52]

\* Includes agriculture and mining

\*\* Includes manufacturing and construction

As shown in Table 1, as the economy underwent industrialization, the contribution of the primary sector (agriculture and mining) to the GDP shrank sharply from 44.3 per cent in 1970 to 20.5 per cent in 1995, and is expected to decline further to 15.5 per cent in 2000. On the other hand, the secondary and tertiary sectors expanded at the expense of the primary sector — the most dramatic increase occurring in the secondary sector (manufacturing and construction) from 18.3 per cent in 1970 to 36.5 per cent in 1995 (an increase of 18.2 percentage points), and is expected to increase further to 40.6 per cent by the end of the century. The tertiary sector (various types of services) also expanded, though not as fast as the secondary sector, from 37.4 per cent in 1970 to 43.0 per cent in 1995 (an increase of about 6 percentage points), and is expected to expand slightly to 43.9 per cent in 2000.

The transformation can be gauged further by examining the contribution of the manufacturing sector to total exports. During the 1960-70 period, manufactured exports comprised a very small percentage of the gross value of total exports, making up less than 5 per

cent in 1960 and 12 per cent in 1970 [Malaysia 1971: 166].

However, the manufacturing base of the economy expanded significantly over the 20 year period, and is expanding much faster today. Growing on average at 9.2 per cent per annum during the 1971-90 period, manufactured exports rose sharply from 12 per cent of total exports in 1970 to 60.4 per cent in 1990, in line with greater industrialization efforts [Malaysia 1991: 37]. Between 1990 and 1995, the average annual growth rate of the manufacturing sector shot up to 25.8 per cent, exceeding all previous growth rates. By 1995, manufactured exports already comprised 79.6 per cent of the gross value of total exports, and is targetted to reach 88.6 per cent in the year 2000 [Malaysia 1996: 42, 52].

Third, a major indicator of social transformation is the expansion of the employers and employees categories and the proportionate contraction of the self-employed and unpaid family workers categories. As the country embarks further along the road of industrialization and modernization, the former categories are expected to increase, while the latter to decline. The 1991 Census shows that the proportion of employees increased from 60 per cent in 1980 to 67 per cent in 1991, while the proportion of unpaid family workers decreased correspondingly from 10 per cent to 4 per cent during the intercensal period. The expansion of manufacturing and service sectors has provided greater employment opportunities for the labour force. The increase in the proportion of employees reflected the expansion in job opportunities for this category of workers, especially in the manufacturing and service sectors. The decline in the proportion of unpaid family workers is expected, given the continued deceleration in the growth rate of the agricultural sector which traditionally involved a substantial number of unpaid family workers [Malaysia 1995: 144].

During the same period, changes in the relative position of the labour force in agriculture and manufacturing reflect the structural changes in the economy. The proportion of the labour force in the agricultural sector (agriculture, forestry, livestock and fishing) shrank from 53.5 per cent in 1970 to 27.8 per cent in 1990, and is expected to decline further to 20.0 per cent by the year 2000 [Malaysia 1991: 116-117]. On the other hand, the labour force in manufacturing and construction and in the tertiary sector expanded very rapidly. For example, the proportion of the labour force in the manufacturing sector increased from 8.7 per cent in 1970 to 13.4 per cent in 1980, and 19.5 per cent in 1990, recording an annual growth rate of 10.3 per cent during the 1971-90 period [*ibid.*: 41]. The percentage of the labour force in manufacturing is expected to increase further to 23.9 per cent by the year 2000 [*ibid.*: 116-117]. For the service sector, its labour force grew at the average annual rate of 7.6 per cent during the 1971-90 period, increasing its share of the total labour force from 32.5 per cent in 1970 to 45.7 per cent two decades later [*ibid.*: 41].

Fourth, urbanization has been most rapid during the last two decades or so. Malaysia's population in 1970 — at the beginning of the NEP and export-led industrialization — was 10.4 million, and out of this, slightly more than a quarter (26.7 per cent) lived in urban areas. However, the ensuing decade saw very rapid urbanization, especially in Kuala Lumpur and surrounding areas, as a result of the restructuring process and the "pull" of urban employment.

As such, by 1980, out of a total population of 13.88 million, the proportion of the urban population increased to more than one-third or 34.2 per cent — an increase of 7.5 percentage points during the intercensal period. A decade later, the 1991 Census shows that the total population (which increased at 2.6 per cent per annum) already numbered 18.55 million in that year, with its share of the urban population increasing sharply to 50.7 per cent [Malaysia 1995: 30-31]. The sharp increase in urban population in 1991 is due to two factors, viz natural growth and in-migration, as well as the redefinition of urban areas in the 1991 Census, which included both gazetted areas as well as adjacent built-up areas with a concentration of 10,000 or more population. In all earlier censuses, urban areas only included gazetted areas which had a population of 10,000 or more.<sup>2)</sup> Between 1991-95, the urban population, growing at 4.3 per cent per annum, numbered 11.3 million in 1995, or 54.7 per cent of the total population. Malaysia's urban population is expected to increase further to 13.7 million or 58.8 per cent of the total population by the year 2000 [Malaysia 1996: 161].

### **Growth and Expansion of the Malaysian Middle Classes<sup>3)</sup>**

The structural transformation described in the preceding section has made a tremendous impact on the formation and expansion of the modern classes — especially the business class and the middle classes — during the post-Independence period. However, this does not mean that such classes were non-existent before Independence. Let us turn briefly to history to trace the origins and growth of this phenomenon.

Prior to Western colonialist penetration in Malaysia (then Malaya), the major classes in indigenous Malay society were the aristocracy on one hand, and the peasantry on the other, though elements of a merchant class — most pronounced during the Malacca period (1400-1511) — were already in existence. Whether these latter elements would be able to transform themselves into the local bourgeoisie and play a revolutionary modernising role like their counterparts did in the West had there been no colonialism is a matter of historical conjecture which we will not indulge in here.

The historical fact is that rudiments of new classes began to appear only under the impact of Western, namely British economic domination, especially from the beginning of the twentieth century. These new classes consisted of European bourgeoisie, Chinese compradors, Indian money-lenders, a small group of European officers, junior Malay administrators, Asian white-collar employees, and a growing proletariat (mainly Chinese and Indian). While a small

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2) According to the 1991 Census, urban areas are gazetted areas with their adjoining built-up areas which have a combined population of 10,000 or more. Built-up areas are defined as areas contiguous to a gazetted area and have at least 60 per cent of their population (aged 10 or more) engaged in non-agricultural activities and at least 30 per cent of their housing units having modern toilet facilities [Malaysia 1996: 153].

3) Due to the heterogeneity of the middle classes, usage in the plural "middle classes" is preferred to the singular. For a discussion on this, see Abdul Rahman [1995a], Kahn [1996b].



proportion among them — in particular, the Malay administrative elite and non-Malay white-collar and technical workers — were the product of the colonial state, others emerged directly or indirectly in response to the demands of expanding colonial capitalism.

As indicated in the preceding section, the formation and growth of the modern classes became much more pronounced after Independence and during post-Independence years. To gauge the nature and extent of the state's role in social transformation and the formation and growth of such classes, especially the business and the middle classes (which is discussed in the next section), we shall make a comparison between the situation in the 1950s and 1960s — prior to the implementation of NEP and export-led industrialization — with the situation in the 1980s and 1990s. Such comparison is not without difficulties, given the shifting definition of the term “middle class” [Jomo 1994; Kahn 1996b; Abdul Rahman 1995a].

Bearing the conceptual difficulties in mind, we will proceed with caution in drawing a class map of Malaysian society by using official data from various national censuses and Malaysian five-year plan documents, concerning occupational statuses and employment by major occupations, as well as education, income and consumption, which can be used as “proxies” to estimate the relative sizes of these classes.

The business class, though small, was already in existence before Independence. Based on the 1947 Census,<sup>4)</sup> “employers” (the occupational status which approximates the business class) numbered some 24,200 persons or only 1.3 per cent of the working population, while by 1980, the number went up to 150,500 or 3.8 per cent of the working population, registering a sixfold increase in over three decades. By 1991, its number increased further in absolute terms to about 185,000, though its proportion of the working population fell to 3.1 per cent due to the rapid expansion of those in the “employees” category [Malaysia 1995: 144]. Though their number is small in relation to other categories, as capitalists, their economic power is strong, more so today.

For the middle classes, an examination of the occupational categories indicates that their growth and expansion has been most rapid, especially since the 1970s — the most remarkable and dramatic growth being experienced by the “professional and technical” as well as “administrative and managerial” categories, or the “new” middle class, as they are commonly referred to. From being a relatively small group in the early years of Independence, making up only 4.0 per cent in 1957 and 5.9 per cent in 1970 (see Table 2), the “new” middle class increased significantly to 11.2 per cent in 1990, 13 per cent in 1995, and is expected to increase further to 15.3 per cent in 2000 [Malaysia 1996: 113] — an increase of almost 10 percentage points in 30 years. In absolute terms, these two categories of employees increased from 168,168 in 1970 (this figure is for Peninsular Malaysia only) to 309,700 in 1980, 740,200 in 1990, and over 900,000 in 1995 (the figures for 1980 and above are for Malaysia as a whole) — a fivefold increase since 1970, or a threefold increase since 1980 (see Table 3; also see

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4) Since the 1957 and 1970 population censuses did not distinguish between “employers” and “selfemployed” categories, we have to rely on the data for 1947 as a base year to estimate the size of the commercial/business class at Independence.

**Table 2** Peninsular Malaysia: Employment by Ethnic Group and Work Category, 1957 and 1970 ('000)

| Category                             | 1957              |                 |                 |           | 1970              |                   |                 |           |
|--------------------------------------|-------------------|-----------------|-----------------|-----------|-------------------|-------------------|-----------------|-----------|
|                                      | Malays            | Chinese         | Indians         | Total (%) | Malays            | Chinese           | Indians         | Total (%) |
| Professional & technical             | 2.7<br>(41.0)     | 3.3<br>(38.0)   | 2.3<br>(11.0)   | 2.8       | 4.3<br>(47.1)     | 5.2<br>(39.5)     | 4.9<br>(10.8)   | 4.8       |
| Administrative & managerial          | 0.4<br>(17.6)     | 2.0<br>(62.4)   | 1.0<br>(12.2)   | 1.2       | 0.5<br>(24.1)     | 1.9<br>(62.9)     | 0.8<br>(7.8)    | 1.1       |
| Clerical & related workers           | 1.7<br>(27.1)     | 3.7<br>(46.2)   | 4.0<br>(19.9)   | 2.9       | 3.4<br>(35.4)     | 6.3<br>(45.9)     | 8.1<br>(17.2)   | 5.0       |
| Sales & related workers              | 2.9<br>(15.9)     | 15.9<br>(66.1)  | 10.0<br>(16.8)  | 8.6       | 4.7<br>(26.7)     | 15.3<br>(61.7)    | 9.5<br>(11.1)   | 9.1       |
| Service workers                      | 7.3<br>(39.7)     | 8.0<br>(33.3)   | 7.6<br>(12.8)   | 8.6       | 6.8<br>(44.3)     | 8.6<br>(17.3)     | 10.9<br>(14.6)  | 7.9       |
| Agricultural workers                 | 74.2<br>(62.1)    | 38.3<br>(24.3)  | 50.2<br>(12.8)  | 56.4      | 62.3<br>(72.0)    | 21.2<br>(55.9)    | 41.0<br>(9.7)   | 44.8      |
| Production transport & other workers | 10.6<br>(26.5)    | 28.3<br>(53.5)  | 24.6<br>(18.9)  | 18.9      | 18.0<br>(34.2)    | 41.6<br>(55.9)    | 24.7<br>(9.6)   | 27.3      |
| Total                                | 1,004.3<br>(48.2) | 759.0<br>(36.3) | 307.2<br>(14.7) | 2,126.2   | 1,477.6<br>(51.8) | 1,043.6<br>(36.6) | 301.4<br>(10.6) | 2,850.3   |

Source: Extracted from Jomo K. S. [1988: 300-301]

Note: Value in brackets shows percentage by ethnic group.

**Table 3** Employment according to Major Occupations, 1990-2000 ('000 persons)

| Occupational Categories   | 1990    | %    | 1995    | %    | 2000    | %    |
|---|---------|------|---------|------|---------|------|
| Professional, technical & related workers                           | 586.4   | 8.8  | 815.3   | 10.3 | 1,097.0 | 12.1 |
| Administrative & managerial workers                                 | 163.8   | 2.4  | 213.7   | 2.7  | 290.1   | 3.2  |
| Clerical & related workers  | 652.6   | 9.8  | 799.5   | 10.1 | 933.8   | 10.3 |
| Sales workers   | 768.9   | 11.5 | 894.4   | 11.3 | 1,042.6 | 11.5 |
| Service workers   | 777.6   | 11.6 | 981.5   | 12.4 | 1,169.5 | 12.9 |
| Workers in agriculture, livestock, forestry, fisheries, and hunting | 1,890.7 | 28.3 | 1,662.2 | 21.0 | 1,486.9 | 16.4 |
| Production & related workers  | 1,846.0 | 27.6 | 2,548.8 | 32.2 | 3,046.2 | 33.6 |
| Total   | 6,686.0 | 100  | 7,915.4 | 100  | 9,066.2 | 100  |

Source: [Malaysia 1996: 113]

Tables 4, 5 and 6 for 1995 and 2000, as well as for ethnic representations).

The lower-middle class (comprising workers in clerical, sales and half of service categories)<sup>5)</sup> made up another 15.8 per cent and 23.9 per cent respectively in 1957 and 1970.

5) The occupational definition used here is only for purposes of making estimates on the relative sizes of the various occupational groups in the work force. These occupational groups should not be taken to represent classes, but only as indicators or proxies of class. Some writers [e.g. Crouch 1994] take only the first four occupational categories — professional and technical, administrative and managerial, clerical, and sales — to refer to middle-class occupations. Others [e.g. Johan Saravanamuttu 1989; Abdul Rahman 1995a; 1995b], besides taking those four in their estimates, also include half of the work force in the service category as comprising lower middle-class occupations.

**Table 4** Employment by Occupation and Ethnic Group 1990 ('000)

| Occupation                   | Bumiputera | %     | Chinese | %     | Indians | %     | Others | %     | Total   | %     |
|------------------------------|------------|-------|---------|-------|---------|-------|--------|-------|---------|-------|
| Professional & technical     | 354.8      | 10.0  | 170.5   | 7.8   | 44.9    | 7.9   | 16.1   | 4.0   | 586.4   | 8.8   |
| %                            | 60.5       |       | 29.1    |       | 7.7     |       | 2.7    |       | 100.0   |       |
| <i>Teachers &amp; nurses</i> | 152.0      | 4.3   | 54.6    | 2.5   | 14.2    | 2.5   | 1.0    | 0.2   | 221.8   | 3.3   |
| %                            | 68.5       |       | 24.6    |       | 6.4     |       | 0.5    |       | 100.0   |       |
| Administrative & managerial  | 47.1       | 1.3   | 101.9   | 4.7   | 6.5     | 1.1   | 8.3    | 2.0   | 163.8   | 2.4   |
| %                            | 28.7       |       | 62.2    |       | 4.0     |       | 5.1    |       | 100.0   |       |
| Clerical workers             | 341.8      | 9.7   | 252.3   | 11.6  | 56.0    | 9.8   | 2.5    | 0.6   | 652.6   | 9.8   |
| %                            | 52.4       |       | 38.6    |       | 8.6     |       | 0.4    |       | 100.0   |       |
| Sales workers                | 229.8      | 6.5   | 449.3   | 20.7  | 52.6    | 9.2   | 37.2   | 9.1   | 768.9   | 11.5  |
| %                            | 29.9       |       | 58.4    |       | 6.8     |       | 4.9    |       | 100.0   |       |
| Service workers              | 449.6      | 12.7  | 208.4   | 9.6   | 73.4    | 12.9  | 46.2   | 11.4  | 777.6   | 11.6  |
| %                            | 57.8       |       | 26.8    |       | 9.5     |       | 5.9    |       | 100.0   |       |
| Agriculture workers          | 1,305.6    | 37.0  | 261.8   | 12.0  | 138.3   | 24.2  | 185.0  | 45.5  | 1,890.7 | 28.3  |
| %                            | 69.1       |       | 13.8    |       | 7.3     |       | 9.8    |       | 100.0   |       |
| Production workers           | 804.6      | 22.8  | 730.8   | 33.6  | 198.9   | 34.9  | 111.7  | 27.4  | 1,846.0 | 27.6  |
| %                            | 43.6       |       | 39.6    |       | 10.8    |       | 6.0    |       | 100.0   |       |
| Total                        | 3,533.3    | 100.0 | 2,175.0 | 100.0 | 570.6   | 100.0 | 407.0  | 100.0 | 6,686.0 | 100.0 |
| %                            | 52.9       |       | 32.5    |       | 8.5     |       | 6.1    |       | 100.0   |       |

Source: [Malaysia 1996: 82]

**Table 5** Employment by Occupation and Ethnic Group 1995 ('000)

| Occupation                   | Bumiputera | %     | Chinese | %     | Indians | %     | Others | %     | Total   | %     |
|------------------------------|------------|-------|---------|-------|---------|-------|--------|-------|---------|-------|
| Professional & technical     | 524.3      | 12.7  | 213.6   | 8.9   | 59.5    | 9.0   | 17.9   | 2.5   | 815.3   | 10.3  |
| %                            | 64.3       |       | 26.2    |       | 7.3     |       | 2.2    |       | 100.0   |       |
| <i>Teachers &amp; nurses</i> | 203.0      | 4.9   | 57.6    | 2.4   | 18.5    | 2.8   | 1.6    | 0.2   | 280.7   | 3.5   |
| %                            | 72.3       |       | 20.5    |       | 6.6     |       | 0.6    |       | 100.0   |       |
| Administrative & managerial  | 77.1       | 1.9   | 116.9   | 4.9   | 10.9    | 1.6   | 8.8    | 1.3   | 213.7   | 2.7   |
| %                            | 36.1       |       | 54.7    |       | 5.1     |       | 4.1    |       | 100.0   |       |
| Clerical workers             | 457.3      | 11.0  | 275.0   | 11.5  | 61.6    | 9.3   | 5.6    | 0.8   | 799.5   | 10.1  |
| %                            | 57.2       |       | 34.4    |       | 7.7     |       | 0.7    |       | 100.0   |       |
| Sales workers                | 323.8      | 7.8   | 464.2   | 19.3  | 58.1    | 8.8   | 48.3   | 6.8   | 894.4   | 11.3  |
| %                            | 36.2       |       | 51.9    |       | 6.5     |       | 5.4    |       | 100.0   |       |
| Service workers              | 571.2      | 13.8  | 223.8   | 9.3   | 85.4    | 12.9  | 101.1  | 14.3  | 981.5   | 12.4  |
| %                            | 58.2       |       | 22.8    |       | 8.7     |       | 10.3   |       | 100.0   |       |
| Agriculture workers          | 1,049.3    | 25.3  | 214.0   | 8.9   | 124.6   | 18.8  | 274.3  | 38.7  | 1,662.2 | 21.0  |
| %                            | 63.1       |       | 12.9    |       | 7.5     |       | 16.5   |       | 100.0   |       |
| Production workers           | 1,141.9    | 27.5  | 829.1   | 37.2  | 262.5   | 39.6  | 252.3  | 35.6  | 2,548.8 | 32.2  |
| %                            | 44.8       |       | 35.0    |       | 10.3    |       | 9.9    |       | 100.0   |       |
| Total                        | 4,144.9    | 100.0 | 2,399.6 | 100.0 | 662.6   | 100.0 | 708.3  | 100.0 | 7,915.4 | 100.0 |
| %                            | 52.4       |       | 30.3    |       | 8.4     |       | 8.9    |       | 100.0   |       |

Source: [Malaysia 1996: 82]

**Table 6** Employment by Occupation and Ethnic Group 2000 ('000)

| Occupation                  | Bumiputera | %     | Chinese | %     | Indians | %     | Others | %     | Total   | %     |
|-----------------------------|------------|-------|---------|-------|---------|-------|--------|-------|---------|-------|
| Professional & technical    | 729.6      | 14.8  | 263.3   | 9.9   | 79.0    | 10.6  | 25.2   | 3.4   | 1,097.1 | 12.1  |
| %                           | 66.5       |       | 24.0    |       | 7.2     |       | 2.3    |       | 100.0   |       |
| Teachers & nurses           | 268.9      | 5.5   | 61.6    | 2.3   | 24.1    | 3.2   | 2.0    | 0.3   | 356.6   | 3.9   |
| %                           | 75.4       |       | 17.3    |       | 6.8     |       | 0.5    |       | 100.0   |       |
| Administrative & managerial | 122.4      | 2.5   | 138.7   | 5.3   | 17.1    | 2.3   | 11.9   | 1.6   | 290.1   | 3.2   |
| %                           | 42.2       |       | 47.8    |       | 5.9     |       | 4.1    |       | 100.0   |       |
| Clerical workers            | 580.8      | 11.8  | 280.1   | 10.6  | 62.6    | 8.5   | 10.3   | 1.4   | 933.8   | 10.3  |
| %                           | 62.2       |       | 30.0    |       | 6.7     |       | 1.1    |       | 100.0   |       |
| Sales workers               | 469.2      | 9.5   | 469.2   | 17.7  | 62.5    | 8.4   | 41.7   | 5.5   | 1,042.6 | 11.5  |
| %                           | 45.0       |       | 45.0    |       | 6.0     |       | 4.0    |       | 100.0   |       |
| Service workers             | 721.6      | 14.6  | 236.2   | 8.9   | 92.4    | 12.5  | 119.3  | 16.0  | 1,169.5 | 12.9  |
| %                           | 61.7       |       | 20.2    |       | 7.9     |       | 10.2   |       | 100.0   |       |
| Agriculture workers         | 918.9      | 18.7  | 172.5   | 6.5   | 114.5   | 15.4  | 281.0  | 37.6  | 1,486.9 | 16.4  |
| %                           | 61.8       |       | 11.6    |       | 7.7     |       | 18.9   |       | 100.0   |       |
| Production workers          | 1,385.0    | 28.1  | 1,090.0 | 41.1  | 313.9   | 42.3  | 257.3  | 34.5  | 3,046.2 | 33.6  |
| %                           | 45.5       |       | 35.8    |       | 10.3    |       | 8.4    |       | 100.0   |       |
| Total                       | 4,927.5    | 100.0 | 2,650.0 | 100.0 | 742.0   | 100.0 | 746.7  | 100.0 | 9,066.2 | 100.0 |
| %                           | 54.4       |       | 29.2    |       | 8.2     |       | 8.2    |       | 100.0   |       |

Source: [Malaysia 1996: 83]

Their proportion increased to 27.1 per cent in 1990, 27.6 per cent in 1995, and is expected to increase to 28.3 per cent by 2000 (see Table 3) — a much lower percentage increase (about 4 percentage points between 1970–2000) compared to the new middle class.

Besides occupation, educational attainment is a major avenue for social mobility and an important indicator of social class transformation. The increase in the number of secondary schools, colleges, and universities over the last two decades in Malaysia has been impressive. In terms of university education, for example, from having only one university before 1969, Malaysia today has eight universities and several other institutions of higher learning offering degree courses. The university student population numbered 52,810 in 1990, which increased to 79,330 by 1995, and is expected to increase further to 114,700 in 2000 [*ibid*: 313]. This number does not include the over 50,000 students enrolled in degree level courses abroad (1995 figures), due to the shortage of places in local universities.

Educational expansion and the democratisation of education, especially at the tertiary level, has resulted in an increase in the number of certificate-holders. There are six types of certificates issued to students who passed the respective examinations at various educational levels in Malaysia.<sup>6)</sup> Official figures indicate that the number of persons having qualifications

6) The certificates are the "Sijil Rendah Pelajaran" (SRP) [Lower Certificate of Education]; "Sijil Pelajaran Malaysia" (SPM) [Malaysian Certificate of Education]; "Sijil Pelajaran Vokasional Malaysia" (SPVM) [Malaysian Certificate of Vocational Education]; "Sijil Pelajaran Tinggi Malaysia" (STPM) [Malaysian Higher Certificate of Education]; diploma/certificate, and degree (including Masters' and Doctoral degrees) [Malaysia 1995: 120].

has increased significantly. In the 1991 Census, about 4.6 million persons or about 42 per cent of the population aged 15 years and above possessed educational qualifications compared to 1.9 million persons or about 24 per cent for the corresponding age group in 1980, registering a growth rate of 8.1 per cent during the 1980-91 period. What is more significant is the increase in the number of those having tertiary education. In 1980, degree-holders in Malaysia made up only 3 per cent of the population aged 15 and above, while in 1991, their number increased to 5 per cent. For diploma- and certificate-holders, their number also increased from 2 to 5 per cent during the same period. Compared with the growth rates for other types of certificate-holders, the average annual growth rates for those possessing diplomas/certificates and degrees were highest, that is, 15.5 per cent and 10.7 per cent respectively during the intercensal period [Malaysia 1995: 121]. Given the strong emphasis on tertiary education in Malaysia today, as shown by the setting up of new universities, including private universities, and numerous twinning programmes with foreign universities, the proportion of degree-holders among Malaysians will increase much faster between now and the next census in early 21st century, thus expanding further the ranks of the new middle class.

The class formation can also be corroborated if we examine household income levels, and household consumption and lifestyles. Over the last two decades, the mean monthly household income of Malaysians increased significantly. For Malaysia as a whole, the mean monthly household income was only RM505 in 1976, but it increased to RM1,167 in 1990 and RM2,007 in 1995 (figures in current prices) — about fourfold increase in 20 years [Malaysia 1996: 94], with an average growth rate of 9.5 per cent per annum during the 1990-95 period.

What is more important in class analysis is to examine income distribution which shows increasing class stratification. Based on the data in the Seventh Malaysia Plan 1996-2000 [*ibid.*: 89], income inequalities showing class differences are sharp, especially in urban areas. It is true that there is a decline in the percentage of “low income households” (defined in the Seventh Malaysia Plan document as those earning less than RM1,000 per month) from 61 per cent in 1990 to 36 per cent in 1995 — approximating the bottom 40 per cent of households. At the same time, there is a substantial increase in the percentage of those earning between RM1,000 and RM3,000 per month — referred to in the plan document as “middle income” households — from 33 per cent in 1990 to 47 per cent in 1995 (approximating the middle 40 per cent), and of high income households (above RM3,000) from 6 per cent to 17 per cent during the same period [*loc. cit.*] (approximating the top 20 per cent).

However, there is widening income inequality between the three categories of households, brought about mainly by the difference in the growth rates of the rural and urban economies [*ibid.*: 91]. The mean income of the low income households, for example, increased only by 3.9 per cent annually during the 1985-90 period, and 8.1 per cent per annum between 1991 and 1995 — the lowest among the three categories of households. On the other hand, the growth rate for the “upper income” households was highest, registering on average 10 per cent per annum between 1991 and 1995, followed by the “middle income” households, whose growth rate was 9.2 per cent during the same period [*ibid.*: 91]. Given the already marked difference in

income levels in absolute terms among the three income categories, with the growth rate highest for the “upper income” households, and lowest for the “low income” households, one can expect a further consolidation of class stratification in the ensuing years.

Such inequality and class stratification can be seen further from ownership and consumption of certain expensive household items. The increase in household income provides households with greater purchasing power, enabling them to acquire more affluent household items whose ownership and consumption is indicative of the growth of the middle and upper classes. Since nation-wide house ownership data is not available, data on car ownership — which is a status product and the second most expensive household item after the house itself — can be used. Official figures indicate that there is a corresponding increase in car ownership among Malaysian households during the intercensal period 1980-91. In 1980, only 19 per cent or about one-fifth of Malaysian households had cars, but by 1991, car ownership increased dramatically to almost one-third (32 per cent) of all households. Urban-dwellers reflect the change most dramatically as shown by the fact that in 1980, only 33 per cent of all urban households had cars, but by 1991, this figure increased to 46 per cent — an increase of 13 percentage points over the 11 year period [Malaysia 1995: 166].

A caveat is in order here. Though in some countries, car-ownership may not reflect inequality and class stratification, in many developing countries, including Malaysia, car-ownership is certainly an index of inequality. In Malaysia, for example, the price of the cheapest and most economical saloon car today is between RM25,000 to RM35,000. With such a price, it can be afforded only by those whose monthly earning is well over RM1,500, while those with lesser income can only afford to own a motorcycle. Thus, car-ownership — taken together with other indicators such as educational qualifications, type of occupation, house-ownership and ownership of other assets, lifestyle, etc. — does indicate the growth of the middle classes.

From the above discussion, it is clear that the upper and middle classes have emerged and grown significantly over the last few decades in Malaysia, and that class inequality is becoming clearer and sharper today.

### **Role of the Developmentalist State**

One important question emerging in the middle-class discourse in late-industrializing economies such as Malaysia is the role of the state in social transformation and in middle-class growth and expansion. A proponent of the state’s overriding role in middle-class formation and expansion in Malaysia is Joel Kahn [1991; 1992; 1996a; 1996b]. Kahn dismisses “the relations of production” approach adopted by Giddens [1980] which has been applied in the Malaysian context by Johan Saravanamuttu [1989], and also the “cultural capital” approach of Bourdieu [1977; 1984] (For further details on this debate, see Abdul Rahman [1995a; 1995b]). The following extract from his article in 1991 sums up his position. To quote: “I have argued for a definition of the middle class which locates them primarily by reference not to the relations of

production, or even what Bourdieu maintains are the relations of production of cultural capital, but to the processes of modern state formation both in the colonial and post-colonial periods [in Malaysia]" [Kahn 1991: 56]. In criticising Saravanamuttu, Kahn maintains that applying the "relations of production" approach to Malaysian middle class studies would be tantamount to mechanically fitting Western class models to Malaysian experience. To him, the Malaysian middle classes did not so much owe their existence to the changing demands of capital, but more to the emergence of the modern state, and that the middle classes are just as embedded in the state as they are in capitalist relations. In fact, he maintains that "the emergence of a new middle class, at least in post-colonial Malaysia, might have as much if not more to do with the emergence of the modern state than with capitalist development per se" [Kahn 1996b: 24-25], and that the middle class "is composed largely not of private, self-employed entrepreneurs, or middle ranking employees of private enterprises but those employed directly or indirectly by the state" [*ibid.*: 24].

It is true that the state has played a very significant role in the structural and social transformation of the Malaysian economy and society over the last three or four decades. However, the nature and extent of the state's role in middle-class formation and expansion should not be assumed, but as far as possible, should be clearly delineated and substantiated empirically. At the same time, the state's role should not be over-emphasised as though other factors, such as production relations and cultural capital, are of no relevance [Abdul Rahman 1995a; 1995b]. A one-sided emphasis on the role of the state is not only empirically questionable, but it also smacks of determinism theoretically.

What, then, is the role of the state in the growth and expansion of the middle classes analysed above? To answer this question, one needs to review briefly the nature of the Malaysian state, the historical and global context in which it played its role, as well as the ideology of the ruling elite.

In Malaysia, the politically dominant group (the Malay intelligentsia) was economically weak when it took over power from the British in 1957. Though it controlled the state machinery, it had limited access to wealth. That being the case, the Malaysian state was more a middle-class state, rather than a state of the bourgeoisie. Though weak economically, the Malay ruling elite in UMNO holding the reins of state power, enjoyed political legitimacy among Malays and non-Malays, partly by virtue of its real or imagined links with the historically constituted indigenous Malay states, especially the Malacca sultanate, and also its Independence credentials, a mantle it inherited successfully given the fact that other Malay-based parties were either banned by the British prior to the declaration of the Emergency in June 1948, or were ineffective. However, while on one hand, the state could be relatively autonomous from the dominant foreign and Chinese business groups [Jesudason 1989: chapter 7], on the other hand, the logic of intra-class and inter-ethnic competition and political support-building, especially from the mid-sixties onwards, led the state to adopt a developmentalist role to address the historical problem of the "Malay dilemma" — among others, by creating a new Malay business and managerial class as a counter-weight to the non-Malay, especially the Chinese bourgeoisie

and the middle class, and by modernizing Malay society.

The above did not, however, become the state's agenda immediately after Independence in 1957, but was aggressively adopted only from 1970. The role of the state in the social transformation since 1957 can be divided into three distinct phases, viz, the laissez-faire period (1957-69), the interventionist period (1970-90) [Jesudason 1989], and the period of liberalisation and privatization (from 1983 onwards, more so since 1991).

As indicated above, the early post-colonial period of 1957-69 was characterised by one of laissez-faire, with the state playing a regulatory role and a provider of utilities, but with little or no intervention. The government's strategy of development then was to undertake rural development directly, to develop the infrastructure of the economy, and generally to leave the development of commerce and industry to private enterprise [Rugayah 1995: 63]. The "restrained role" of the state was overseered by Tunku Abdul Rahman, the first Prime Minister, who was regarded as the "ultimate guarantor of the laissez-faire approach and the consociational political scheme [between UMNO, MCA and MIC]" [Jesudason 1989: 55]. The state's relatively laissez-faire approach approximated the neo-classical economist's view of economic rationality to a greater degree than the economic arrangements after 1970 [*ibid.*: 47].

The laissez-faire approach above, though successful in bringing about economic growth, could not address the historical problem of the "Malay dilemma," and in fact, heightened the Malay sense of insecurity and political vulnerability. During the 1957-69 period, Malaysia already had quite a relatively sizeable Chinese bourgeoisie and middle class, as well as a large Chinese proletariat. But the Malays made little advance in the modern economic sector, their business class was hardly in existence while the middle class was very small and weak economically. For example, in the employers' category, out of 24,200 employers in 1947, Chinese employers formed the majority (69.0 per cent), Indian employers 12.5 per cent, while Malay employers only 16.9 per cent of all employers. The Malay business class remained weak for many years even after Independence. In 1970, based on official figures, of a total share capital of RM5,329.2 million in Peninsular Malaysia, Malay corporate ownership was a meagre 2.4 per cent (1.6 per cent owned by Bumiputera individuals while 0.8 per cent held by trust agencies), compared with 34.3 per cent owned by non-Malays (mainly Chinese capitalists), and 63.3 per cent by foreigners.<sup>7)</sup>

At the same time, in 1970 just as in 1957 (see Table 2 above), the Malays were also still poorly represented in most sectors of the modern economy, from managerial or executive positions to supervisors and skilled production workers. They were well represented or even over-represented only in the lower rungs of professional and technical jobs such as nursing and teaching in government hospitals and schools respectively, and the few high-level administrative

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7) The financial and economic weakness of the Malay business and middle classes can clearly be seen from the following example. In 1964, of a total of RM15.1 million shares allotted to Malays — in fact, practically all the 50,000 or so Malay civil servants were then encouraged to buy up to RM10,000 each in company shares — only RM3.8 million shares or 25 per cent of what was allotted to the Malays — were acquired by them [Jesudason 1989: 64-65].



positions.

The above ethnic share ownership and occupational imbalance was compounded further by increasing unemployment and rampant poverty during that period. Unemployment and poverty cut across ethnic groups, but the proportion of unemployed and poor Malays was higher than that of non-Malays. Job creation — growing at only 2.5 per cent annually — was lagging behind population growth of 3.3 per cent per annum, pushing up unemployment in 1960 to 6.0 per cent while underemployment was also substantial. Though the Pioneer Industries Programme, which brought in foreign investment, managed to increase manufacturing's share of the GDP from 8.5 per cent in 1960 to 13.5 per cent in 1970, it created only 23,000 new jobs [Jesudason 1990: 58], and was incapable of absorbing unemployed labour. Thus unemployment rate increased dangerously to reach 8.0 per cent in 1970. Poverty was widespread, officially estimated at 49.3 per cent in 1970, with Malay households constituting the majority (74 per cent) of all poor households in Peninsular Malaysia. Class and ethnic frustrations experienced by the Malays became intertwined, and raised ethnic tensions that triggered off the May 13, 1969 riots.

Though from the mid-1960s, there was a slight departure from the previous policy, particularly due to the pressure from the small segment of aspiring Malay businessmen, politicians and administrators to engage in direct commercial and industrial activities in the modern sector, this laissez-faire period ended only after the powershift within the ruling UMNO in 1969 and Tun Razak became the second Prime Minister (1970-76). The power change led to the introduction of the NEP in 1970 (following the May 1969 riots), and implemented from 1971 to 1990 — a period characterised by active state intervention, especially for the first ten years. The NEP's two-pronged objectives of poverty eradication irrespective of race and restructuring of society were formulated in order to tackle the above problem as well as to achieve national unity. The NEP's target is not only to increase the Bumiputera share ownership to 30 per cent by 1990, but also to restructure the occupational patterns as well as the ethnic balance in students' intake into tertiary especially university education, so that they reflected the ethnic mix of the population more accurately.

What made a significant impact on the growth and expansion of the middle classes, especially among Malays, is the state intervention in the economy as "entrepreneur." In implementing this strategy, the state gained control of a number of giant foreign conglomerates involved in sectors regarded as "strategic" to national interests (for example, the take-over by Permodalan Nasional Berhad in the 1980s of plantation companies such as Guthrie, Sime Darby, and Harrisons & Crosfield which owned hundreds of thousands of hectares of prime land, and Malaysian Mining Corporation involved in tin-mining). It also carried out the occupational restructuring, especially at managerial level, in state-owned companies and publicly-listed companies in which the state — through its trust agencies — had a controlling interest. Given its objective of creating a *bumiputera* commercial and industrial community (BCIC), the state also encouraged the growth of Malay businesses by awarding contracts, loans, training and other kinds of assistance to existing or new businessmen to facilitate them to go seriously into

business ventures.

At the same time, on the human resource development side, the state expanded educational opportunities at tertiary level by setting up more universities and colleges, while simultaneously increasing the intake into existing ones. Together with the provision of scholarships/grants to Malay students to pursue tertiary education by the state, the whole exercise had opened doors for occupational and social mobility into middle-class jobs previously foreclosed to Malays.

Under the NEP's state-as-entrepreneur or government-in-business strategy, government intervention in the economy occurred on a very large scale, with the most important feature being the setting up of state-owned enterprises (SOEs). Some writers have argued that for an economy which is viewed as being fundamentally market-oriented, Malaysia's SOE sector has been surprisingly large, in fact, among the largest in the world outside the centrally planned economies [Adam and Cavendish 1995: 15]. The SOEs were actively engaged in core utilities — transport, communications, water supply, energy, and finance — with a substantial proportion also in non-traditional sectors such as services, construction, and, particularly, manufacturing [*loc. cit.*]. The expansion in the SOE participation in the commercial, industrial, and service sectors as well as in the emerging oil-and gas-based exploration sector was so rapid that the SOE sector was growing at a rate of over 100 enterprises per year by the mid-1970s. By March 1990, the SOEs numbered 1,158 with a total paid-up capital of RM23.9 billion [*ibid.*: 16-17]. The significance of the state sector to the economy can be seen from the fact that 25 per cent of the GDP in 1990 was contributed by the SOEs.

With the state playing an active role in the economy, its role as the single largest employer in the country became more pronounced. As a percentage of total employment, public sector employment grew from 12 per cent in the early 1970s to a peak of 15 per cent in 1981, and declined to 12.5 per cent in 1991 [Rugayah 1995: 65]. In absolute terms, state employees numbered 398,000 or 11.9 per cent of a total employment of 3.34 million in 1970, 692,000 or 14.4 per cent of total employment in 1980, and 850,000 or 12.9 per cent of total employment in 1990 [*loc. cit.*].

However, as indicated above, from the mid-1980s, following the implementation of the Malaysia Incorporated in 1983 by the fourth Prime Minister Dr. Mahathir Mohamad, who was responsible for the privatization policies, the downsizing of the public sector, and the introduction of the Privatization Master Plan in 1991, the contribution of the state sector to total employment began to decline, especially with the transfer of state employees to the private sector. According to official figures, between 1983-95, over 100 SOEs were privatized. At the same time, 96,756 public sector employees or 11.4 per cent of the total public sector labour force have been transferred to the private sector since 1983 through privatization [Malaysia 1996: 206]. This number excluded personnel of government-owned companies which were privatized earlier.

The dramatic decline in the role of the state sector as a source of employment since then can clearly be seen from the following figures. During the 1970-80 period, state employees increased from 398,000 in 1970 to 692,000 in 1980, a percentage increase of 73.9 per cent, but

between 1981 and 1990, its percentage increase was small (12.3 per cent). With public sector downsizing and privatization fully under way in the 1990s, public sector employment during the Sixth Malaysia Plan (1991-95) increased marginally from 850,000 in 1990 to 872,000 in 1995, and is expected to number 894,000 (or 9.9 per cent of total employment) in the year 2000 — a percentage increase of only 4.7 per cent above the 1991 figure, which is a dramatic drop from a record high of 73.9 percentage increase in the 1970s.

The important fact that needs to be stressed is that, first, though the state has been and still is the single biggest employer, especially during the NEP period, its contribution to total employment varied from as high as 15 per cent in 1981 to as low as 11 per cent in 1995. The rest of employment (85-89 per cent) is being contributed not by the state, but by the private sector, including the informal sector.

Second, though the state is very significant in the formation and expansion of the middle classes — especially their Malay component — middle-class occupations comprise only about half of all public sector occupations. Most of the middle-class occupations are actually outside the state sector, and that future expansion of the middle classes will be more and more determined by private sector expansion rather than by the state, given the thrust towards privatization and downsizing of the public sector [Abdul Rahman 1995a].

Third, as a corollary to the above, the new middle class (comprising those in the professional and technical, as well as administrative and managerial categories), which constitutes the most important middle class segment, has been growing very rapidly over the last two decades or so. Their number was in the region of 310,000 in 1980 (7.6 per cent of total employed), 750,200 in 1990 (11.2 per cent of total employed), and slightly over 1 million in 1995 (13 per cent of total employed). However, the overwhelming majority of this new middle class are to be found in the private sector, with a relatively small but significant number in the public sector.

Fourth, it is claimed that “one clear result of the NEP’s implementation is that the free enterprise philosophy which Malaysian governments had previously endorsed was *discarded* in favour of massive direct state intervention aimed at creating a Malay capitalist class” [Sieh Lee Mei Ling 1992: 103; italics added]. However, this statement is rather sweeping. It should be pointed out that despite active state intervention during the NEP period (1971-90), free enterprise continued unabated, no outright nationalization ever took place of any industry, be it foreign or local. The closest to nationalization (if it can be said so) was the take-over of Guthrie in 1981, but that was done through the “dawn raid” on the London Stock Exchange. On the whole, the state’s role was affirmative in nature to facilitate the growth of Malay business and professional classes, but it remained friendly to market forces, and actively encouraged foreign and local investment. As such, private sector growth continued to take place, including among Chinese capitalists.

The claim by some scholars [for example, Yoshihara 1988] that Chinese capital in Malaysia could not expand because of the NEP should be examined in a proper light. Such a claim seems to mask a few important facts and does not place the growth and expansion of the Bumiputera

business and professional middle classes in a proper historical context. From the economic point of view, it needs no reminder that the growth and expansion of the latter occurred through an expanding economic “cake,” and not by fighting with some other groups over a fixed or, worse still, a shrinking economic “pie.” The economic structure between ethnic groups is more balanced today than previously. Politically, the growth and expansion of these classes together with the poverty reduction among all ethnic groups, including the *bumiputera*, have created conditions necessary for national unity and nation-building, which in turn, has provided a more conducive climate for economic growth. The communal tension and instability characteristic of the late 60s and early 70s have been greatly reduced. Only an historical approach together with an appreciation of the complexities of nation-building in a multi-ethnic post-colonial society like Malaysia can help an observer grasp the logic of the changes better.

One major development during the NEP era which greatly worked in favour of Chinese capital was the setting up of The Kuala Lumpur Stock Exchange (KLSE) in 1973 as a separate entity independent of its then parent body based in Singapore — an exercise conducted by Kuala Lumpur in keeping with the NEP’s objectives. The establishment of the KLSE, which dramatically expanded the Malaysian domestic capital market, provided an unprecedented source of private sector funds for financing corporate expansion, which were quickly tapped by Chinese businessmen to expand their activities [Heng Pek Koon 1992: 129].

Far from curtailing Chinese capital, and the expansion of the Chinese middle class, the NEP period was one which conferred benefits to them indirectly. In fact, the section of Chinese business which did not regard the NEP as hostile to them, but as a necessary move to expand Malay capital and the professional middle class to reduce the inter-ethnic imbalance and hence create a stable socio-political condition, proved to be some of the most successful, as was the case with a number of the Chinese family-based enterprises (for example, The family business of Lim Goh Tong). The picture is clear when we examine the share-ownership figures in 1990. In fact, despite the NEP’s targetted 30 per cent Bumiputera share ownership in the corporate sector by 1990, the Bumiputera share increased from 2.4 per cent in 1970 to only 19.3 per cent (well below the 30 per cent NEP target); the Chinese share did not decrease, but instead increased both in absolute terms as well as proportionately from about 34 per cent in 1970 to 45.5 in 1990, while foreign interests declined from 63 per cent in 1970 to 25.4 per cent in 1990 [Malaysia 1996: 86] — the major portion of foreign capital being involved in the manufacturing sector. It is, therefore, clear that together with the state sector, the private sector has been a major engine of growth — even during the NEP period — encouraged by the export-oriented industrialization policy laid down by the government. That being the case, capitalist relations of production has not only been vital in capital accumulation and production, but also in providing employment opportunities, including creating a large proportion of middle class occupations. The growth and expansion of the massive private sector required a large proportion of professional and technical workers, as well as managerial workers. In fact, the majority of those in the administrative and managerial category, which numbered 162,400 in 1990 — or 2.5 per cent of the total employed — (an increase from 42,000 or only 1 per cent

of total employed in 1980), came from the private sector. Of this number, only one-third were Bumiputera (mainly in the state sector), while Chinese made up 59 per cent, mostly in the private sector (see Tables 4, 5 & 6).

## Conclusions

The above facts and arguments highlight one major point in the middle-class discourse, that is, that capitalist relations of production, alongside the state, is very crucial in middle-class growth and expansion in Malaysia. To argue that the Malaysian middle classes did not so much owe their existence to the changing demands of capital, but more to the emergence of the modern state [Kahn 1996b], would mean ignoring the facts of the case, and would be grossly one-sided.

The importance of the state is very crucial in creating a major segment of the Malay business and middle classes [Muhamad Ikmal 1995], but for a large section of the non-Malay middle classes, the state's role ranged from being indirect to insignificant. The state is important indirectly by means of instituting pro-business policies, and creating a stable and peaceful environment conducive to business. It is also a major source of business, especially for privatized infrastructure development projects.

Though the majority of the middle classes may not owe their existence and growth to the state, the state's policies and programmes are crucial in influencing their political attitudes and orientation. For example, the liberalization and deregulation policies embarked by the state since the late 1980s have paid political dividends, when urban — predominantly Chinese — constituencies in metropolitan cities voted overwhelmingly for the government in the 1995 general election.<sup>8)</sup>

One new development in the relationship between the state and the middle class should be mentioned. There is an increasing trend among members of the Malay middle class, despite their state-sponsored mobility, to assert independence of the state in terms of career choices. In a recent study on culture of modernity and the middle classes in Kuala Lumpur and its

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8) In his study on the rise of ersatz capitalism in Southeast Asia, Yoshihara Kunio [1988] argues that the Chinese problem is more serious in Malaysia than in Indonesia, not only because the NEP discriminated against them and imposed large costs on the economy, but also because it seems to lack a solution. The chances are that anti-Chinese discrimination will worsen, due partly to the Malaysian political system and partly to the rise of Islamic fundamentalism [*ibid.*: 129]. Subsequent developments seem to contradict Yoshihara's prognosis. As shown above, not only did the economy grow under the NEP and export-led industrialization, but Chinese capitalists and the Chinese middle class also continued to expand. At the same time, the NEP contributed significantly to the newly found sense of confidence among Malays, and the current social peace — a necessary prerequisite for national unity and nation-building.

It is interesting to note that Yoshihara Kunio is one of the economists who tends to doubt the capability of indigenous Southeast Asians to develop the region, and who tends to overstate the role of the Chinese. For details, see his comparative study on the role of Chinese business in the Philippines and Thailand in which he made explicit this claim [Yoshihara 1994].

surrounding suburbs conducted in 1995 by Norani Othman and this writer,<sup>9)</sup> it is found that the middle classes are a heterogeneous group whose emergence and growth, in part, are closely bound up with the state, and in another, quite independent of it. The majority of respondents (70 per cent) were first generation city dwellers, but quite a substantial number (30 per cent) belong to the second generation of dwellers of large metropolitan cities. Though over 50 per cent of the respondents were born in rural areas, almost 90 per cent had their secondary education in cities or major towns. The city-ward movement was obviously in direct response to the state's urbanization policy of the 1970s and 1980s, and also a logical consequence of the fact that most major secondary schools are located in big towns and cities.

One of the main routes to social mobility is education, especially at tertiary level. In the study, slightly over 80 per cent had university or college education, while the rest secondary education. However, their routes in acquiring university or college qualifications differ. Some 47 per cent pursued their tertiary education by means of a government scholarship or grant, about one-third relied on their own resources, while the rest obtained loans. In other words, only about half directly depended on the state for scholarships (mainly Malays), about one-fifth partially on the state, while about one-third (non-Malays) acquired tertiary education independent of state support.

Though the state played a significant role for about half of them in directly assisting them to acquire knowledge and skills at university or college, the state is insignificant, or only partially significant, to them as a prospective employer. What is more important is the fact that, to the overwhelming majority, the state is no longer considered the provider of the most important and prestigious jobs. A study of occupational ranking shows that for the majority of the Malay respondents, the most attractive job sector is no longer the powerful positions in politics and state administration, but the private sector — working either as professionals in companies or venturing on their own by setting up their own enterprises.

Among graduating university students, a similar trend emerges very clearly. The same study shows that among these students, the majority (over 60 per cent) want to work on their own, or as professionals in the private sector, and less than 40 per cent in the government. This is radically different from the situation some 30 years ago when government posts were the most prized jobs and highly sought after. A study on occupational ranking among a group of Malay students at Universiti Malaya conducted by Alatas [Alatas 1966: chapter 5] showed that Malay students in the 60s regarded the top six most prestigious occupations were sultans, Prime Minister, Cabinet Ministers, Menteri Besar (chief ministers), secretary-generals of ministries, and heads of departments — in short, the top command posts in the state administrative machinery.

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9) The study, funded by the Malaysian government under the Intensive Research in Priority Areas (IRPA) programme, was conducted in 1995 among middle class households in Kuala Lumpur and Petaling Jaya. A report of the findings has been submitted to the government, while a monograph is currently under preparation.

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The preceding discussion has stressed the need to examine critically and in a balanced manner, both the role of the state and the private sector in the formation and expansion of the middle classes in Malaysia. It has argued that the state's role in the formation and expansion of the middle classes, though critical, should not be over-stated. Since the state has neither opted for nationalization, nor discarded the free enterprise system — even during the NEP period — private sector development continued unabated, benefitting especially from the favourable climate created by the government's pro-business policies and privatization programmes implemented since the late 1980s.

However, the Malaysian middle classes are still in the process of formation and have yet to consolidate themselves. By indulging in certain consumption patterns and lifestyles, some segments, especially the upper income brackets, exhibit a tendency towards distinction, for example, by their choice of exclusive residential areas, possession of luxury cars, country club membership, foreign travel, and so on. This cultural dimension is becoming increasingly important as an expression of middle-class "lifestyling" [Gerke 1995], but it can only be the subject of another paper.

### Acknowledgements

The writer acknowledges with thanks the kind assistance of the Director of the Program for Southeast Asian Area Studies (PROSEA), Academia Sinica, Taipei, Taiwan, and the Research Committee of the Faculty of Social Sciences and Humanities, Universiti Kebangsaan Malaysia, which has enabled him to conduct research in preparation for this article.

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